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UNCLAS TAIPEI 004085

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER  
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

SENSITIVE

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PREL](#) [TW](#) [CH](#)

SUBJECT: Limited New Taiwan Dollar-Renminbi Exchange Begins  
in Kinmen and Matsu

1. (SBU) Summary: Taiwan implemented a trial program allowing new Taiwan dollar (NTD) and the PRC's renminbi (RMB) exchange services in Kinmen and Matsu on October 3. This is a small step that was approved only after a long delay. However, it may be an indication of further financial cross-Strait liberalization. End summary.

2. (U) On the morning of September 28, Premier Frank Hsieh announced that banks in Kinmen and Matsu, two small islands just off the coast of the PRC's Fujian Province, would be allowed to provide NTD-RMB exchange services on a trial basis. The program was implemented on October 3. The cross-Strait currency exchange will be subject to a limit of 20,000 RMB per transaction and per customer. The currency exchange services will be available only to travelers who have entered Kinmen or Matsu through the "mini links," which connect those two islands by ferry with the ports of Xiamen and Fuzhou respectively. Eligible travelers must show the entry record in their travel documents as well as their tickets.

3. (U) All four banking institutions on Kinmen and Matsu have obtained cross-Strait currency exchange licenses from the CBC. These are Bank of Taiwan, Land Bank of Taiwan, Fuhwa Bank, and Kinmen Credit Cooperative Association. They are permitted to set their own NTD-RMB exchange rates, which they must post, in the bank. The CBC does not set any limit on margins between buying and selling rates. The three banking institutions may go to Bank of America or HSBC to settle their exchange transactions.

4. (SBU) A banking official told AIT/T that the PRC's central bank, the People's Bank of China (PBC), had delivered RMB 20 million worth of brand new notes to Bank of America and HSBC. He indicated that the delivery of an unusually large volume of new notes on a single day could be a PBC endorsement of the new policy.

5. (SBU) The banking official also reported that because of Typhoon Longwang, banks in Kinmen had been closed on October 13. Banks in Matsu conducted only five exchange transactions that day. Some customers appeared to be interested only in obtaining a souvenir of the first day of legal exchanges. The volume of currency exchanged the following day was much higher pushing the total value for both days to 739,600 RMB.

6 (SBU) Comment: The Kinmen and Matsu NTD-RMB currency exchange program has been awaiting approval from the Mainland Affairs Council for more than a year. In a January visit to Kinmen, a local bank officer told AIT econoff that his branch had completed training and was ready to implement the program in July 2004. The program is limited, but it is an important step. It provides a legal exchange mechanism for underground exchanges that were already common on the islands. More importantly, it could be a sign that the Taiwan government may be willing to move forward soon on other cross-Strait financial liberalization. End comment.

PAAL